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Venezuela

Dairy and Products

Annual

2001

Approved by:

Leanne Hogie

U.S. Embassy, Caracas

Prepared by:

Clara Nuñez

Report Highlights:

Venezuela's total dry milk production consists of 38,000 tons of whole powdered milk and 3,000 tons of non fat dry milk. Production of both whole and non fat dry milk is not expected to show significant changes in 2002 because current inventories are still high and consumption is expected to remain steady. Annual imports of dry whole milk were 67,000 MT in 2000, should remain flat in 2001 and then increase up to 70,000 MT in 2002. The system of import licenses is not transparent and there are enormous delays in the issuance of the licenses.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Caracas [VE1], VE

Executive Summary

Venezuela's total dry milk production consists of 38,000 tons of whole powdered milk and 3,000 tons of non fat dry milk. Production of both whole and non fat dry milk is not expected to show significant changes in 2002 because current inventories are still high and consumption is expected to remain steady.

Venezuela is a milk deficit country. Dry milk imports, which usually cover between 35 and 50 percent of total consumption, make up the shortfall. Imports of powdered milk were 67,000 MT in 2000. Dry milk imports are projected to remain the same in 2001 and are forecast to increase up to 70,000 MT in 2002. Most imports of dry milk come from New Zealand, the European Union and the United States. Numerous world suppliers compete for the Venezuelan dry milk market.

Total milk consumption has been declining and is now only 80 liters per capita/per year, very low if compared to other countries of the region. The Venezuelan Dairy Industry Association, CAVILAC, argues that consumption is below world levels due to several causes, including, insufficient domestic production, high costs of raw milk which drive retail prices up to unaffordable prices and a decline in real incomes.

Annual imports of dry whole milk were 67,000 MT in 2000, should remain flat in 2001 and then increase up to 70,000 MT in 2002. The dominant dry milk export partners for Venezuela are New Zealand and the European Union, the United States being in a third place mostly for non fat dry milk and other dairy products. The system of import licenses is not transparent and there are enormous delays in the issuance of the licenses. Import licenses are subject to the Ministry of Production and Commerce's approval.

Venezuela: Dairy, Milk, Dry Whole PSD, 2000-2001 (1,000 Metric Tons)

PSD Table						
Country	Venezuela					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	39	39	42	42	40	45
Production	38	38	40	38	0	38
Intra EC Imports	0	0	0	0	0	0
Other Imports	67	67	70	67	0	70
TOTAL Imports	67	67	70	67	0	70
TOTAL SUPPLY	144	144	152	147	40	153
Intra EC Exports	0	0	0	0	0	0
Other Exports	2	2	2	2	0	2
TOTAL Exports	2	2	2	2	0	2
Human Dom. Consumption	100	100	110	100	0	105
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	100	100	110	100	0	105
TOTAL Use	102	102	112	102	0	107
Ending Stocks	42	42	40	45	0	46
TOTAL DISTRIBUTION	144	144	152	147	0	153
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Venezuela: Dry Whole Milk Imports, 1999-2000 (Kilos)

Import Trade Matrix			
Country	Venezuela		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan/Dec	Units:	kilos
Imports for:	1999		2000
U.S.	760,176	U.S.	666,529
Others		Others	
New Zealand	25,594,606	New Zealand	22,866,717
Ireland	1,704,780	Ireland	4,731,196
Denmark	310,422	Denmark	4,560,312
Netherlands	6,549,207	Netherlands	915,045
Germany	817,893	Germany	454,454
U.K.	3,733,234	U.K.	246,181
Belgium	2,142,870	Belgium	3,671,310
Argentina	4,483,232	Argentina	518,290
Uruguay	4,974,988		
Total for Others	50,311,232		37,963,505
Others not Listed	7,078,788		13,259,878
Grand Total	58,150,196		51,889,912

Source: Venezuelan Statistics Institute (Instituto Nacional de Estadísticas, INE)

Venezuela: Dry Whole Milk Retail Prices 2001-2001 (Bolivars per liter)

Prices Table			
Country	Venezuela		
Commodity	Dairy, Dry Whole Milk Powder		
Prices in	Bolivars	per uom	Kg.
Year	2000	2001	% Change
Jan	3,550	4,065	14.51%
Feb	3,550	3,885	9.44%
Mar	3,475	3,870	11.37%
Apr	3,695	4,020	8.80%
May	3,695	3,910	5.82%
Jun	3,550	3,950	11.27%
Jul	3,500	3,800	8.57%
Aug	3,668	3,900	6.32%
Sep	3,850	3,985	3.51%
Oct	3,885	4,180	7.59%
Nov	3,935		
Dec	4,180		
Exchange Rate	Bs 743/ \$	Local currency/US \$	

Source: Local Newspapers and Venezuelan Dairy Industry Association, CAVILAC (Cámara Venezolana de Industrias Lácteas)

Venezuela: Dairy, Milk, Dry Nonfat PSD, 2000-2001 (1,000 Metric Tons)

PSD Table						
Country	Venezuela					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	2	3	3	4	3	3
Production	3	3	3	3	0	3
Intra EC Imports	0	0	0	0	0	0
Other Imports	6	6	6	6	0	6
TOTAL Imports	6	6	6	6	0	6
TOTAL SUPPLY	11	12	12	13	3	12
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	8	8	9	10	0	9
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	8	8	9	10	0	9
TOTAL Use	8	8	9	10	0	9
Ending Stocks	3	4	3	3	0	3
TOTAL DISTRIBUTION	11	12	12	13	0	12
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Venezuela: Dry Nonfat Milk Imports, 1999-2000 (Kilos)

Import Trade Matrix			
Country	Venezuela		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	Jan/Dec	Units:	kilos
Imports for:	1999		2000
U.S.	1,016,501	U.S.	797,338
Others		Others	
Colombia	799,688	Colombia	1,002,498
Canada	101,600	Uruguay	527,000
Total for Others	901,288		1,529,498
Others not Listed	121,411		205,151
Grand Total	2,039,200		2,531,987

Source: Venezuelan Statistics Institute (Instituto Nacional de Estadísticas, INE)

Production

Venezuela does not produce enough milk to meet its needs. Milk production only covered 65 percent of the domestic consumption in 2000. The remainder has traditionally been imported in the form of dry milk. Domestic milk production for 2001 was 38,000 MT and it is projected to remain steady in 2002, due primarily to the deteriorated economic conditions of the country and to weather variations, Venezuela has suffered a severe dry summer season (February-April) this year.

Domestic production has decreased over the last 10 years, and in that sense the need to import. According to industry contacts, a source of the decline is that many cattle ranchers in the important dairy production area along the Colombian border have been selling their animals due to security problems. The extent of this problem is not yet clear, but most probably the effect has been that more dairy cattle are devoted to dual-purpose herds instead of solely milk production. Another factor that plagues the Venezuelan dairy industry is poor application of technology.

Ninety percent of the milk produced in Venezuela is by dual purpose, grass fed cattle, which are less productive than pure-bred dairy animals. About 75 percent of domestic milk production is concentrated in the Maracaibo Lake basin of western Venezuela. Only 20 percent of the dry milk is produced in the country, the rest is imported.

The industry generally devotes itself to producing whole milk powder because consumers prefer full-fat dry milk. Also, the recovery cost for any butterfat produced from defatting the milk would make it prohibitively expensive for the local consumer if sold as butter or used to enhance ice cream. (Imported butter dominates that market segment and domestic ice cream is not high in butterfat)

According to the Venezuelan Dairy Chamber, CAVILAC, the Venezuelan milk market is the most expensive among Latin America countries and the only one in which production has been decreasing in a constant way since 1993, due to a lack of development strategies for the dairy sector. In the last 10 years raw milk production decreased 10 percent; the producers price increased 45 percent and consumption decreased 10 percent.

The Venezuelan dairy sector has been lately affected by several factors, among others: overvaluation of the currency, high interest rates, stagnant economy, low productivity, juridic and personnel insecurity (land invasions and kidnappings), and instability of agricultural policies. This causes have generated a weakness in the domestic milk sector, a lack of stimulus and security to carry out investments that could be recuperated in the long term, and have also produced a lack of stimulus for increasing the production.

Consumption

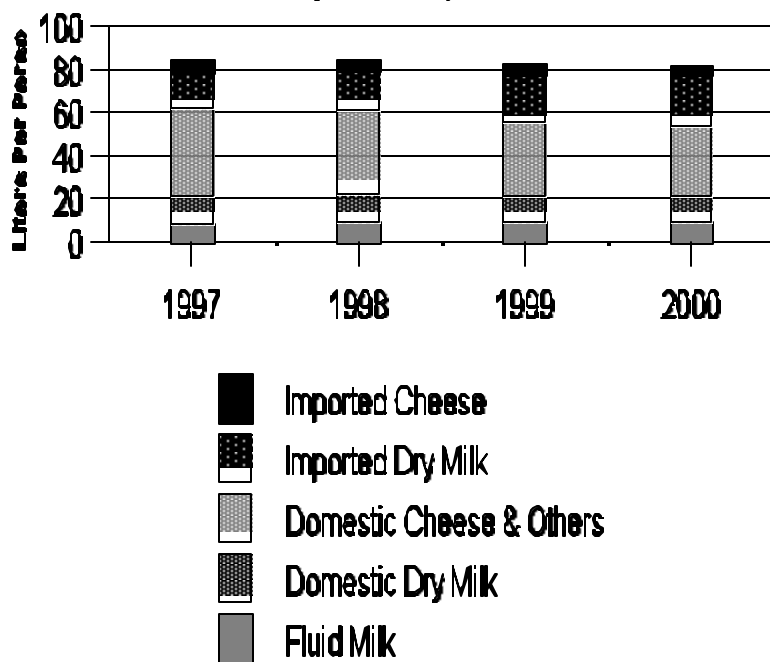
Per capita milk consumption in Venezuela is only 80 liters per year. Compared to other countries, Venezuela consumes very little milk. Colombia consumes 122 liters per capita/per year, while the United States consumes 260 liters per capita/per year. The Venezuelan Dairy Industry Association, CAVILAC, argues that consumption is below world levels due to several causes, insufficient domestic production, high costs of raw milk which drive retail prices up to unaffordable prices and a decline in real incomes. Consumption have been steady in the last years due to economic conditions of the country.

Most Venezuelan consumers do not view low fat-milk favorably since there is a general perception that full-fat (3.2 percent fat) milk is more nutritious. In recent years, however, demand for low-fat milk has improved somewhat, as some consumers (mostly higher-income) have expressed greater concern about reducing fat intake. Approximately 10 percent of powdered milk output in Venezuela is non-fat. The expected increase in non-fat milk demand will be covered by imports, with the United States being the most important source of imports.

Ultra-high temperature (UHT) milk first entered the Venezuelan market in the 90s. Currently, 4 percent of the market consist on UHT milk. CADIPRO Mil Company (New Zealand) leads the UHT market in Venezuela with a market share of 60 percent.

Although yogurt consumption in Venezuela is one of the lowest in the world, it has increased in the last 10 years. In 2000 per capita yogurt consumption was 2 liters per year according to industry sources. According to Post contacts, yogurt sales during 1999 increased to twice the level of 1996 sales due to the aggressive marketing strategies performed by the major companies. Innovations have included new brands, new presentations of liquid yogurt, yogurt with cereal and yogurt desserts that were not common on the Venezuelan market until recently. The market yogurt leader is Parmalat, a large Italian dairy corporation, however other imported brands have recently appear in the market, as for example, U.S. brand Best Yet, which has had very good acceptance.

Per Capita Milk Consumption (1997-2000)



	1997	1998	1999	2000
Fluid Milk	8.6	9.5	9.1	9.2
Domestic Dry Milk	13	12.4	11.8	11.9
Domestic Cheese & Others	40.5	38.8	34.4	32.7
Imported Dry Milk	16.9	18.5	22.6	24.3
Imported Cheese	5.5	5.1	4.3	3.7
Total per capita consumption	85.19	84.24	82.14	81.9

Source: Venezuelan Dairy Industry Association, CAVILAC (Cámara Venezolana de Industrias Lácteas)

Trade

A. Imports

Annual imports of dry whole milk were 67,000 MT in 2000, should remain flat in 2001 and then increase up to 70,000 MT in 2002. Dry milk imports are vital to Venezuela. Most imports of dry milk come from New Zealand (at least half), the United States and the European Union. Numerous world suppliers compete for the Venezuelan dry milk market. More than 90 percent of annual imports take place between November and May, coinciding with the dry season when domestic milk production is lower. The dominant export partners are New Zealand and the European Union, who have established very close links with the Venezuelan dairy industry for decades. In 1994 the New Zealand Dairy Board established an strategic union with the Venezuelan group ILAPECA, which later became CADIPRO Milk Products, who not only commercialize domestic traditional brands, but international brands such as Anchor and Anlene. The other company with a strong presence in the dairy market is the Italian corporation, Parmalat.

Dry milk accounts for 87 percent of Venezuelan dairy imports. Cheese and derivatives accounts for the remainder. Regarding Venezuelan dry milk imports, 91 percent correspond to whole dry milk, and 9 percent correspond to non-fat dry milk

Note: Import data in the trade matrix undercount total imports due to some inconsistencies in HS codes, but INE is the only data source for imports by country.

B. Exports

Given that Venezuela is unable to produce sufficient quantities to cover domestic demand and is a relatively high cost producer, milk exports are minimal and will likely remain trans-border trade with Colombia.

C. Import requirements

Milk imports from countries outside TRQ's of the Andean Community are subject to a 20 percent duty, plus an additional import tax under the Andean Community's price band and reference system (Sistema de Bandas de Precios). The bands are the parameters which determine whether additional import taxes are applied to imported products. The price band for dry whole or non-fat milk consists of ceiling and floor prices, which are calculated on the basis of a five-year average of New Zealand dry whole milk without added sugar, adjusted to CIF basis. Floor and ceiling prices are revised every April. The Andean Community also issues a reference price which is adjusted every two weeks. If the reference price falls within the floor and ceiling bands, only 20 percent duty is applied. If the reference price is above the ceiling band, a negative charge is applied to the 20 percent duty. Duties can be accessed at www.comunidadandina.org (Under *Franjas de Precios* - "Price Bands").

Policy

Trade Policy

In the case of dairy products the import system of non-automatic, non-transparent import licensing continues, and these licenses are subject to the Ministry of Production and Commerce's approval. The import quota approved by the Government is 73,000 MT. The import licenses are given at the beginning of every quarter, and the administration of this system of non-transparent quota seems to support domestic absorption. The MPC has pointed out that the import quota assignment is tied to three aspects: first, to the traditional importers; second, to the WTO-permitted quota; and, finally to favor those companies that acquire domestic production.

The criteria used by the government for the distribution of the dairy quota, as well as the criteria for the adjudication of the licenses when demand exceeds the negotiated WTO quota is unknown. No regulations for who can or will get licenses have been published by the government. However, it is common knowledge that for whole dry milk (HS 0402.21 - 73,000 MT), the licenses were split into four tranches (not equally) and within each tranche 10 percent was for new importers and 90 percent to the traditional importers.

Marketing

The dominant export partners for milk products in Venezuela are New Zealand and the European Union, who have established very close links with the Venezuelan dairy industry for decades.

Although consumption of non-fat products is not comparable to that of full-fat dry milk, it continues to be a niche market that U.S. exporters can pursue. Marketing strategies should look at penetrating this market.

A large amount of dry-whey is also used by the Venezuelan ice cream, desserts and confectionary industries, and this fast growing sector can be targeted by U.S. whey suppliers.

An additional potential growth market is for yogurt and yogurt-based products in Venezuela. The average market growth rate for yogurt has consistently been in double-digit percentage rates in recent years.

Cheese imports comes mainly from the European Union, Uruguay and the United States. Domestic production only covers 85 percent of domestic consumption. Cheese imports cover the remaining 15 percent. Domestic production is devoted mostly to white and soft cheeses. The National Cheese Producers Association (ANIQUEOS) has pressured the government to prohibit cheese imports alleging high inventories of aged cheese. As with the rest of the dairy products, cheese imports are subject to delays in the issuance of import licenses or to approval with reduced quantity. But for many types of cheese there is no equivalent local substitute